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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2215)

DEC5134 – FUNDAMENTALS OF ECONOMICS (All sections / Groups)

22 FEBRUARY 2023
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 10 pages with 2 sections:
Section 1: FORTY (40) multiple choice; and
Section 2: THREE (3) structured questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

SECTION 1: MULTIPLE CHOICE QUESTIONS

1. The market value of all final goods and services produced by the citizens of the country during a year is known as _____.
 - A. gross domestic product
 - B. gross national product
 - C. statistical discrepancy
 - D. capital consumption allowance
2. In what circumstances is an economy said to be in recession?
 - A. If real GDP falls in one quarter compared with the quarter before.
 - B. If real GDP falls for two consecutive quarters.
 - C. If real GDP falls in one year compared with the year before.
 - D. If real GDP falls for two consecutive years.
3. Lenny grows vegetables in her backyard garden to feed her family. The food she grows is not counted in GDP because _____.
 - A. it was not produced for the marketplace
 - B. it is an intermediate good which Lenny will process further
 - C. the vegetables have no value
 - D. it reduces the amount of vegetables she will buy at the store
4. The period of the business cycle in which real GDP is increasing is called the _____.
 - A. peak
 - B. recession
 - C. expansion
 - D. trough
5. When the value of a nation's exports exceeds the value of that nation's imports, the nation is said to have _____.
 - A. hyperinflation
 - B. a trade deficit
 - C. price stability
 - D. a trade surplus
6. If during 2020, the country of XYZ recorded a NNP of RM58 billion, interest payments of RM16 billion, imports of RM19 billion, profits of RM3 billion, exports of RM22 billion, and rent of RM8 billion. The wages during 2020 in Country ABC were _____.
 - A. RM36 billion
 - B. RM31 billion
 - C. RM51 billion
 - D. RM64 billion

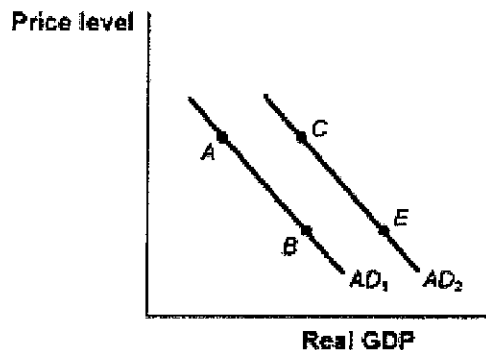
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7. Per capita income is obtained by dividing national income by _____.
A. total labor force in the country
B. unemployed youth in the country
C. total population of the country
D. employed youth of the country
8. If the prices of all goods and services produced in the economy remain unchanged while the quantity of all goods and services rises, which would rise?
A. Both real GDP and nominal GDP.
B. Real GDP but not nominal GDP.
C. Nominal GDP but not real GDP.
D. Neither nominal GDP nor real GDP.
9. Sandra is a Malaysian who works in Singapore. The value of the output she produces is _____.
A. included in both Malaysia GDP and Malaysia GNP
B. included in Malaysia GDP, but it is not included in Malaysia GNP
C. included in Malaysia GNP, but it is not included in Malaysia GDP
D. included in neither Malaysia GDP nor Malaysia GNP
10. The aggregate demand curve shows the relationship between the _____.
A. price of oil and the quantity of aggregate output demanded
B. aggregate price level and the quantity of aggregate output demanded
C. price of money and the quantity of aggregate output supplied
D. level of employment and the quantity of aggregate output supplied
11. Which of the following will shift the short-run aggregate supply curve to the left?
A. Economy-wide increase in commodity prices.
B. Decrease in nominal wages.
C. Decrease in productivity.
D. Increase in government purchases of goods and services.
12. The increase in spending that occurs because the real value of money increases when the price level falls is called _____.
A. the wealth effect
B. the interest rate effect
C. the foreign trade effect
D. the income effect
13. Which of the following would cause the aggregate demand curve to shift to the right?
A. An increase in purchases by the federal government.
B. An increase in real interest rate.
C. An appreciation of the American dollar
D. A decrease in the money supply

Continued

14. In the short-run, when there is an increase in aggregate supply, the aggregate price level will _____.
A. rise and the aggregate output level will decrease
B. rise and the aggregate output level will increase
C. fall and the aggregate output level will increase
D. fall and the aggregate output level will decrease

15. Figure 1



- Refer to Figure 1. A movement from point B on AD_1 to point E on AD_2 may have been the result of _____.
A. an increase in investment demand due to optimistic GDP forecasts
B. a decrease in investment due to pessimistic GDP forecasts
C. increase in the taxes paid by business
D. higher interest rates
16. Which of the following would not be included in aggregate demand?
A. An increase in firms' inventories.
B. Purchases of goods by households.
C. Firm's purchases of newly produced machinery.
D. Government's tax collections.
17. The theory of price and wage stickiness and misperceptions are all explanations for _____.
A. the slope of short-run aggregate supply
B. the slope of long-run aggregate supply
C. the slope of the aggregate demand curve
D. everything that makes the aggregate demand curve shift
18. A situation when a person is able and willing to take up a job and gets employed, it is called _____.
A. unemployment
B. employment
C. full employment
D. discouraged workers

Continued

19. A situation when people are engaged in jobs but they do not get these jobs according to their capabilities, efficiency and qualification, it is called _____.
A. frictional unemployment
B. structural unemployment
C. cyclical unemployment
D. full employment
20. What is the shape of the AS curve in the full employment range?
A. Flat horizontal.
B. Completely vertical.
C. Upward-sloping.
D. Downward-sloping.

21.

Table 1

Year	Price Index
2008	100
2009	104
2010	103
2011	110

- Refer to Table 1. What is the inflation rate between the years 2008 and 2011?
A. 4 percent
B. 4.8 percent
C. 6 percent
D. 10 percent
22. Assume that, in the population, 95 million people worked for pay last week, 5 million people did not work for pay but had been seeking a job, 5 million people did not work for pay and had not been seeking a job for the past several months, and 45 million were under age 16. The unemployment rate, given these numbers, is _____.
A. 5%
B. 8%
C. 10%
D. 15%
23. The index used most often to measure inflation is the _____.
A. consumer price index
B. wholesale price index
C. student price index
D. Dow Jones price index

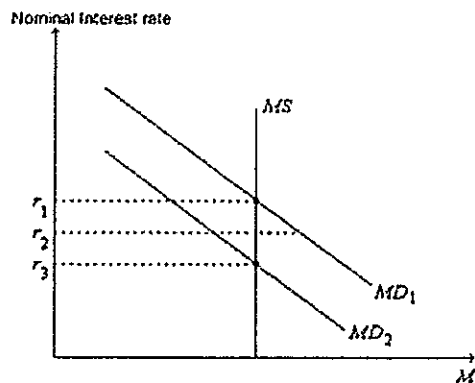
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24. The government has a budget surplus if _____.
A. its total revenues are equal to its total expenditures.
B. its total revenues are less than its total expenditures.
C. its total revenues are greater than its total expenditures.
D. the money supply is less than total expenditures.
25. An economy is in the midst of an inflationary cycle. An example of a government policy aimed at moving the economy back to potential GDP is a(n) _____.
A. increase taxes
B. increase in government spending on infrastructure improvements
C. decrease in the property taxes
D. decrease in unemployment benefits
26. If there is a decrease in government purchases, then _____.
A. AD will shift to right, causing an increase in the price level and an increase in real GDP.
B. AD will shift to left, causing a decrease in price level and a decrease in real GDP.
C. SRAS will shift to left, causing an increase in the price level and a decrease in real GDP.
D. SRAS will shift to right, causing a decrease in price level and as decrease in real GDP.
27. If the economy is at equilibrium below potential output, there is a(n) _____.
A. recessionary gap, and expansionary fiscal policy is appropriate
B. inflationary gap, and contractionary fiscal policy is appropriate
C. recessionary gap, and contractionary fiscal policy is appropriate
D. inflationary gap, and expansionary fiscal policy is appropriate
28. The economy policy of changing the quantity of money, hence the interest rate and the overall spending in the economy, is known as _____.
A. supply-side policy
B. fiscal policy
C. free-market policy
D. monetary policy
29. Currency in circulation, traveler's checks, and checkable bank deposits are the components of _____.
A. M1 only
B. M2 only
C. both M1 and M2
D. M3 only

Continued

30. Assume that the required reserve ratio is 10 percent, banks keep no excess reserves, and borrowers deposit all loans made by banks. Suppose you decide to deposit RM100 in your checking account. As a result of your deposit, the money supply can increase by a maximum of _____.
- RM800
 - RM900
 - RM1,000
 - RM1,100
31. A commercial bank's ability to create money depends on which of the following?
- The existence of a central bank.
 - A fractional reserve banking system.
 - Gold and silver reserves backing up the currency.
 - A large national debt.

32. Figure 2



Refer to Figure 2. Which of the following events could explain a shift of the money demand curve from MD₂ to MD₁?

- A decrease in the price level.
 - A decrease in the cost of borrowing.
 - An increase in the price level.
 - An increase in the cost of borrowing.
33. If two nations specialize according to the law of comparative advantage and then trade with each other, which of the following would be true?
- A smaller number of a goods would be available in each trading nation.
 - Total world production of goods would decrease.
 - Both nations would be better off.
 - One nation would gain at the expense of the other nation.

Continued

34. Money is used to measure the value of goods and services because _____.
A. it is a store of value
B. it is a unit of account
C. it is a medium of exchange
D. it has intrinsic value
35. If Malaysia exports are RM90 billion and imports are RM110 billion, which of the following is correct?
A. Malaysia has a trade surplus of RM20 billion.
B. Malaysia has a trade surplus of RM50 billion.
C. Malaysia has a trade deficit of RM20 billion.
D. Malaysia has a trade deficit of RM50 billion.
36. The natural rate of unemployment is equal to _____.
A. the ratio of frictional unemployment rate to the cyclical unemployment rate
B. the sum of frictional unemployment and cyclical unemployment
C. the sum of frictional unemployment and structural unemployment
D. the sum of structural unemployment and cyclical unemployment
37. A quota is a _____.
A. tax on an imported good
B. legal limit on the amount of a good that may be imported
C. legal limit on the price of a good that may be imported
D. subsidy to domestic producers of a good whose substitute is imported
38. Under floating exchange rate system, exchange rate is determined by the _____.
A. demand for foreign exchange
B. supply of foreign exchange
C. supply and demand forces of foreign exchange
D. government
39. A change from RM4.40 per dollar to RM4.60 per dollar indicates that RM _____.
A. appreciated
B. depreciated
C. no change
D. either appreciated or depreciated.
40. If the Canadian exchange rate depreciates, which of the following will happen to the balance of payment for Canada?
A. Exports increase and imports decrease.
B. Exports decrease and imports increase.
C. Exports and imports both increase.
D. Exports and imports both decrease.

Continued

SECTION 2: STRUCTURED QUESTIONS**QUESTION 1**

- (a) Table 2 below shows the data for a country for year 2021.

Table 2

Items	RM Millions
Exports of goods and services	180
Government expenditure	56
Gross private domestic investment	96
Imports of goods and services	215
Consumption expenditures	114
Output produced domestically by foreign owned factors of production	88
Output produced abroad by domestically owned factors of production	97
Depreciation of fixed capital	36.5
Indirect business taxes	18

Using expenditure approach, compute the following values:

- (i) Gross Domestic Product (GDP) (4 marks)
 - (ii) Gross National Product (GNP) (3 marks)
 - (iii) Net National Product (NNP) (3 marks)
- (b) Table 3 shows the national income figures, price indices and population for a hypothetical country in years 2020 and 2021.

Table 3

	2020	2021
Nominal GDP	RM4,560 million	RM5,864 million
Price Index (year 2000 = 100)	115	132
Labor Force	18 million	22 million

- (i) Compute the real GDP in years 2020 and 2021. (4 marks)
- (ii) Compute the inflation rate in year 2021. (3 marks)
- (iii) Assume the number of unemployed people is 15,500 in year 2021, compute the unemployment rate in year 2021. (3 marks)

[Total: 20 marks]

Continued

QUESTION 2

- (a) Using the aggregate demand and short-run aggregate supply (AD-SRAS) model, illustrate and present your explanation of the effects on the equilibrium price level and real gross domestic product (GDP) for each of the following events:
- (i) A decrease in the price of rental for business office due to the implementation of price ceiling. (5 marks)
 - (ii) The forming of a stable government leads to an appreciation of a country's currency. (5 marks)
- (b) Assume Bank A has accumulated RM1.8 million of reserve at the end of 2021 and total deposit of RM15 million in the early 2021. The required-reserve ratio is 8%. In December 2022, Bank A receives a new deposit of RM20 million from the sale of government securities.
- (i) Compute the amount of reserve that needs to be added after receiving the new deposit. (4 marks)
 - (ii) Compute the total checkable deposits created by extending new loans from the sales of government securities. (3 marks)
 - (iii) Compute the maximum change in checkable deposits from the new deposit if the required-reserve ratio increases to 10%. (3 marks)
- [Total: 20 marks]

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QUESTION 3

- (a) Table 4 below shows the production of palm oil and latex for Malaysia and Indonesia before international trade.

Table 4

Country	Current Production Level	
	Palm oil (tonne)	Latex (tonne)
Malaysia	40	80
Indonesia	50	40

- (i) Based on your understanding about absolute and comparative advantages, determine which country enjoys the absolute and comparative advantage for each product. (6 marks)
- (ii) Assume that the terms of trade is 1 tonne of palm oil exchange for 1.6 tonne of latex and Malaysia would like to import 45 tonne of palm oil.

Complete Table 5 below to determine if either of the countries gain from trade and the quantity of the gains from trade. (Note: *Re-draw this table in the Answer Booklet.*)

Table 5

Country	Output before trade/specialization		Output after specialization	
	Palm oil	Latex	Palm oil	Latex
Malaysia	40	80		
Indonesia	50	40		
Country	Output after trade (TOT: 1PO = 1.6L)		Gains from trade	
	Palm oil	Latex	Palm oil	Latex
Malaysia				
Indonesia				

(4 marks)

- (iii) Illustrate the Production Possibilities Frontier and Trading Possibilities Frontier for both countries after the trade took place. Clearly show the initial production level and the output level after trade. (6 marks)
- (b) Present the difference between specific tariff and ad valorem tariff. (4 marks)
- [Total: 20 marks]

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